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C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000333

SIPDIS

STATE FOR EAP/BCLTV, EB  
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TREASURY FOR OASIA  
USPACOM FOR FPA

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TAGS: [ETRD](#) [ECON](#) [PGOV](#) [BM](#)

SUBJECT: MANDALAY: SERVING BURMA'S COMMERCIAL NEEDS FROM  
TAUNGOO TO TAMU

REF: A. RANGOON 321

[B](#). RANGOON 316  
[C](#). RANGOON 58

Classified By: COM CARMEN MARTINEZ FOR REASONS 1.4 (B,D)

[1](#). (C) Summary: Mandalay's status as a commercial hub has not saved it from the economic malaise gripping all of Burma. The usual culprits are to blame -- government mismanagement of the economy, a moribund banking system, and low consumer purchasing power -- and no fix is in sight. The hangover of Khin Nyunt's ouster is chilling the desire for new investment, though border trade with China is rebounding. Despite the economic importance of Mandalay, and its expanding IT and transport infrastructure, locals complain that non-Chinese foreigners rarely look their way for any investment or capacity building. There is a clear opportunity for the USG to fill the near vacuum and help develop Mandalay's independent civil society. However, given existing pressures on the democratic opposition in Mandalay, the best chance to do so may be through the independent business community, which could be a source of internal pressure on the regime for economic, rule of law, and other democratic reforms. End summary.

Mandalay: Listless Commercial Hub

[2](#). (SBU) Discussions with businesspeople during Embassy Rangoon's "American Days in Mandalay" trip, March 8-10 (ref A), revealed discontent with the state of the economy. Despite Mandalay's position as the hub of Chinese border trade and its economic dominance over central and northern Burma there were few optimists among the businesspeople we met.

[3](#). (C) Mandalay-based traders, IT executives, and shopowners complained that the economic situation had declined notably in the last couple of years. Like their colleagues in Rangoon, these businesspeople blamed the long malaise, in particular, on the lack of a proper banking system, overly tight import/export regulations, poor purchasing power of most consumers, and rampant corruption. None volunteered U.S. economic sanctions as a particular barrier to business. There was not much optimism among traders and retailers that things would improve unless there were a major change of heart, or change of personality, at the very top of the SPDC.

[4](#). (C) Another common thread, also regularly mentioned in talks with Rangoon businesspeople, is the near paralysis of new investment since Prime Minister Khin Nyunt was ousted in October 2004. Khin Nyunt's military intelligence (MI) apparatus had long played a major "facilitation" role in most sectors of the domestic private economy. Four months after Khin Nyunt's and MI's removal, however, no agency or individual has yet stepped in to take over this crucial role. The result is a freeze on most new business activity as private investors, already starved for investment capital with Burma's ongoing banking problems (ref C), await a clear sign from the top of who is "in charge." Without that sign, no one dares choose a senior GOB or military patron who might subsequently get arrested or toppled from grace -- along with his business associates.

Border Trade is Reviving, But Barriers Remain

[5](#). (C) One comparative bright spot in the Mandalay scene is border trade. Though the volume of goods coming from China, particularly luxury consumer items, is down, traders blame poor purchasing power and domestic economic conditions more than any restrictions on the trade itself. MI had controlled border trade through its "Border Supervisory Committee" or "NaSaKa," and there was a considerable downturn in border commerce in the months following NaSaKa's October 2004 fall. It has picked up again, though, since the January formation of a new joint Customs-Army border trade agency (the "Border Trade Supervisory Body" or "NaKaTha"). Smuggling remains a bit difficult, however, since NaKaTha agents are reportedly gun-shy to accept large bribes to allow major shipments of illegally imported goods to pass down the Muse-Mandalay

highway. The SPDC is currently prosecuting former NaSaKa and other MI officers on corruption charges. Nonetheless, Mandalay traders report, it is still no problem to bring small shipments of illegal goods into the country and larger shipments if they come off-road.

Comment: Tired of Getting Crumbs

16. (C) We heard loud and clear from Mandalay businesspeople, particularly from the IT sector, frustration that the city is being ignored by non-Chinese foreigners, whose focus lingers on Rangoon. Despite Mandalay's nearly pan-Burma economic importance, and its clear economic strengths -- a huge, modern, and almost totally unused international airport (a few flights a week to Chiang Mai), access to broadband Internet, a better cell phone network than Rangoon, and good road connections to China -- brain drain from Mandalay to Rangoon continues. Local businesspeople are hungry for foreign, and particularly American, attention -- especially English language and economic outreach programs. There is a clear opportunity for the USG to fill the near vacuum and help develop Mandalay's independent civil society. However, given existing pressures on the democratic opposition in Mandalay (refs A and B), the best chance to do so may be through the independent business community, which could be a source of internal pressure on the regime for economic, rule of law, and other democratic reforms. End comment.  
Martinez